

Program Memorandum Carriers

Department of Health and
Human Services (DHHS)
HEALTH CARE FINANCING
ADMINISTRATION (HCFA)

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CHANGE REQUEST 1634

SUBJECT: Claims Processing Instructions for the Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) Competitive Bidding Demonstration

This Program Memorandum (PM) contains the standard systems changes required for the DMERCs to process demonstration claims received on or after October 1, 2001, for the second round of the DMEPOS Competitive Bidding Demonstration in Polk County, Florida.

Background

This demonstration is required by the Balanced Budget Act of 1997. It implements a test of competitive bidding as a way for the Medicare Program to pay for medical equipment and supplies. Several studies have shown that the Medicare Program and its beneficiaries often pay more for medical equipment and supplies than other insurers and even individual patients. This demonstration requires suppliers to submit bids, including quality and price information, to provide access for Medicare beneficiaries at a more reasonable cost to beneficiaries in the Medicare Program. Also, because the bidders will be evaluated for ethical behavior, bidders with unacceptable records of program compliance will be rejected, thus helping to reduce Medicare fraud and waste.

The first site for the bidding demonstration was Polk County, Florida, where bids were solicited for five product categories: Oxygen, hospital beds, enteral nutrition, surgical dressings, and urological supplies. The project received 73 bids for the items, chose winning suppliers, and saved an average of 17 percent compared with the regular Florida fee schedule. The initial round of the demonstration was implemented on October 1, 1999, and will end on September 30, 2001. Implementation of the demonstration has gone very smoothly with beneficiaries having continued access to products that they need, and additional quality standards implemented to assure high quality products and services.

A similar demonstration was implemented in the San Antonio, Texas area. Affecting beneficiaries in Bexar, Guadalupe and Comal Counties, this demonstration was implemented on February 1, 2001, and will operate for 23 months. By June 23, 2000, 179 bids were received from 77 suppliers for five product categories: Oxygen, hospital beds, nebulizer inhalation drugs, manual wheelchairs, and non-customized orthotics. Winning suppliers were chosen, and the project saved an average of 20 percent compared to the regular Texas fee schedule. Similar to the Polk County demonstration, the San Antonio demonstration is running smoothly with no problems in access and quality.

The second round of competitive bidding is now in preparation in Polk County. Bids will be received from suppliers on April 17, 2001, for four product categories: Oxygen, hospital beds, surgical dressings, and urological supplies. In the spring and summer of 2001, the DMERC, Palmetto GBA, will evaluate the bids, propose a list of winning demonstration suppliers to us, and send out directories of the suppliers to Medicare beneficiaries. The second round of the demonstration will be implemented in Polk County on October 1, 2001, and will operate for one year. After the conclusion of the demonstration, payment methods will revert to the normal Medicare fee-for-service DMEPOS payment methods.

Required System Modifications

The specific bid model selected by us dictated the systems changes required for implementation of the competitive bidding demonstration. The model designated uses a reimbursement methodology

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that allows reimbursement only to demonstration suppliers based on the composite bid prices of the winning suppliers. Non-demonstration suppliers are denied reimbursement except under the conditions of grandfathering. The primary changes that were made for the Viable Information Processing Systems (VIPS) for this demonstration were designed to support the project regardless of the product category bid and the metropolitan statistical areas (MSAs) selected for the demonstration. Once the changes were made to accommodate the first demonstration, which was implemented on October 1, 1999, in Polk County, Florida, minor modifications will be required to accommodate the future demonstrations including changes required to add new product categories, new locations and/or rebidding of a site.

The bid model for the second round in the first demonstration site will mirror the bid model of the first demonstration. It will also use a reimbursement methodology that allows reimbursement only to demonstration suppliers based on the composite bid prices of the winning suppliers. Non-demonstration suppliers are denied reimbursement except under the conditions of grandfathering.

The primary change in this round is the product categories. The product categories to be bid on in the second round of site one are:

- Oxygen Services;
- Hospital Beds and Accessories;
- Surgical Dressings; and
- Urological Supplies.

The VMS system modifications are divided into three parts: Master File Impacts, Claim Processing Logic Impacts, and Reporting Requirements.

Master File Impacts

Slight adjustments will be required in the ACEMASTR to identify any new HCPCS procedure codes in the product categories for the second round of site one as claims are processed.

There should be no update required to the VMAP Parameter table because the ZIP codes for Polk County are already loaded. The current VMAP locality table, which is used to determine participation in the competitive bidding demonstration based upon the ZIP codes in the MSA and surrounding areas, is also already loaded.

VIPS' specifications for Polk County will require that as claims are processed, the logic will read the language indicator for all round two demonstration claims, and determine whether remark and action code verbiage on the MSNs should be printed in Spanish. Spanish verbiage is already loaded to the VMAP tables by Palmetto GBA for all demonstration remark and action codes.

VIPS will use the program created for the first round to perform the initial load of BID records for round two. Once again, Palmetto GBA will provide a file to VIPS for this load in a mainframe format.

The AREA/PREVAILING Pricing file will not require any changes to format or layout for rebidding site one. However, minor changes must be made to allow for the load of pricing information for this round, and it will be systematically loaded with the new demonstration prices for Polk County. The changes must also accommodate housing pre-round one prices, round one prices, and round two prices.

Claims Processing Logic Impacts

A substantial portion of the modifications that were made to VMS for this project was coded in the claims pricing modules during the first site and will not need to be recoded.

The claims processing logic impacts are essentially the same for the second round of the Polk County demonstration as the first, allowing “First Demo Claim” payments and ALGS letters. Changes must be made to bypass edits as necessary for the second round of the first site for any category covered in the first round, but not in the second round (enteral nutrition has been eliminated from the demonstration).

There will be no additional categories of suppliers beyond the current demonstration suppliers, non-demonstration suppliers and exempt suppliers. There will be no changes in the rules governing the processing of these supplier categories within the demonstration. The grandfathering logic must now identify claims grandfathered as pre-demonstration versus those grandfathered from round one to round two.

Reporting Requirements

Finally, there will be minor additional reporting requirements, training, and additional documentation requirements beyond necessary updates to the VMS competitive bidding demonstration manual. The same reports currently generated for the first round of site one will also be generated for the second round of site one. However, changes must be made to reports to appropriately distinguish the different rounds.

The *effective date* for this PM is October 1, 2001.

The *implementation date* for this PM is October 1, 2001.

These instructions should be implemented within your current operating budget.

This PM may be discarded after September 31, 2002.

If you have any questions, contact Michael Park, 410-786-6591.